LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 7080
BILL NUMBER: HB 2130

DATE PREPARED: Mar 20, 2001
BILL AMENDED: Mar 20, 2001

SUBJECT: Enterprise Zones.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Qualified Employee Wage Deduction:* This bill provides that a person who resides in an Enterprise Zone (EZ) and is an employee of a nonprofit entity or local, state, or federal government is eligible for the Qualified Employee Wage Deduction.

New EZ date extension: This bill extends from December 31, 2003, to December 31, 2015, the date beyond which the State Enterprise Zone Board is prohibited from adding new EZs. It also specifies that the designation of an EZ in a municipality in which a previously designated Zone has expired does not count against the limit allowing only two new EZs to be designated each year.

Late Filing Penalty: This bill provides that if an EZ business does not file the required verified summary of tax credits and tax exemptions claimed during the preceding year before the June 1 deadline and does not file for an extension, the EZ business waives those credits and exemptions unless it pays, before July 16, a penalty equal to 15% of the credits and exemptions provided during the preceding year.

Investment Cost Credit: The bill also specifies that high technology business operations are eligible for a 5% Enterprise Zone Investment Cost Credit.

Economic Development Areas: The bill allows an economic development area established in connection with a closed or inactive military base to include territory not on the military base but that is either within the corporate boundaries of the unit that established the development area or contiguous to the military base.

Effective Date: July 1, 2001; January 1, 2002.

Explanation of State Expenditures: (Revised) The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to make changes regarding the Qualified Employee Wage Deduction and the EZ Investment Cost Credit. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: (Revised) *Qualified Employee Wage Deduction:* This bill would allow EZ residents employed by nonprofit entities, local units of government, the state of Indiana, and the federal government to claim the Qualified Employee Wage Deduction. It is unknown how many additional individuals might be eligible under this bill. The deduction is currently available to EZ residents who are employed within the Zone. These individuals may deduct the lesser of one-half of income earned within the EZ or $7,500 from their state taxable income. For each eligible taxpayer who is able to deduct the maximum of $7,500, there would be a reduction of $255 in income tax liability ($7,500 multiplied by the Individual Adjusted Gross Income Tax rate of 3.4 %).

According to DOR data, in 1998 there were 1,791 taxpayers who deducted a total of $11.5 M in personal income, resulting in a tax liability reduction of $391,000. For each additional 1,000 employees who are eligible under this proposal, there would be a corresponding revenue loss of up to $255,000. The expansion of this deduction is effective January 1, 2002 and will affect revenue collections beginning in FY 2003. Individual Income Tax revenue is deposited in the General Fund.

New EZ date extension: This bill would extend the deadline for establishing new Enterprise Zones by twelve years from December 31, 2003 to December 31, 2015. It also provides that the designation of an EZ in a community where a previous Zone had expired does not count against the limit of two new EZs each year. The effects of the economic development associated with EZs and the various corporate and individual tax incentives available to Zone business and residents cannot be determined. The impact ultimately depends on the number of zones established and their size and location. There are currently 25 EZs in Indiana including three former military bases. The two newest Zones in Mitchell and Portage were established in December 2000.

Penalty for late filing: Current law provides that if a business does not file a summary of the Zone-related tax credits and exemptions claimed in the preceding year with the state EZ Board and the local Urban Enterprise Association by a certain date, the business must then waive these incentives. (However, an extension may be requested.) This bill provides that if a Zone business misses the deadline and does not file for an extension, it must pay a penalty equal to 15% of the incentives claimed by the Board in order to receive any EZ credits or exemptions.

The amount of revenue that would be generated through this penalty is not known, but would ultimately depend on the number of late filers. Penalties would be deposited in the state Enterprise Zone Fund administered by the Indiana Department of Commerce (IDOC). The balance of this fund as of January 2001 is approximately $570,000.

Investment Cost Credit: This bill also allows the existing EZ Investment Cost Credit to be taken for investments made in high technology businesses. Under current law, this credit is available to taxpayers making a purchase of ownership in a business located in a Zone. If the purchase is deemed eligible after review by IDOC, the taxpayer may receive a credit equal to the investment multiplied by a certain percentage. The percentage applied varies based on the business sector in which the firm is engaged, the number of jobs created, and the amount of the investment. The total percentage may not exceed 30%.

This bill allows an investor in a high technology business to receive a 5% EZ Investment Cost Credit. Current law provides a 2% credit for retail, professional, and warehouse/distribution operations and a 5% credit for manufacturing businesses. High technology businesses are defined as those having research expenses in advanced computing or materials, biotechnology, electronic device technology, environmental technology, and medical device technology.

The amount of any additional tax credits associated with this bill is unknown, but the impact could begin in FY 2003. From CY 1997 through CY 1999, the IDOC approved more than $844,000 in EZ Investment Cost Credits. If these credits exceed a taxpayer's liability in a given year, the excess may be carried forward. No carrybacks or refunds are permitted.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Qualified Employee Wage Deduction:* Counties imposing local option income taxes will experience an indeterminable reduction in revenue from these taxes as a result of expanding the pool of taxpayers eligible for this deduction.

Economic Development Areas: Current law permits the use of tax increment financing (TIF) by a redevelopment authority in a county with a military base that is scheduled for closing or is partially or completely closed, even if a reuse authority is not established. The authority may adopt a declaratory resolution which designates all or part an economic development area as an allocation area. In the allocation area, taxes paid on the real property AV which is over and above the base AV would be captured and allocated to the redevelopment authority. The base AV includes the AV on the assessment date immediately prior to the effective date of the declaratory resolution.

In addition to territory within the corporate boundaries of the designating authority, this provision would allow the economic development area to include territory that is outside of the corporate boundaries and outside of, but contiguous to, the military base.

This provision would allow for a wider territory to be designated as an allocation area. The property taxes attributable to all of the assessed value growth in the allocation area would benefit the redevelopment authority. However, the total local revenues collected by the local civil taxing units and school corporations would remain unchanged except for cumulative funds. Cumulative funds have set tax rates that would generate more tax levy if the assessed valuation increased. These funds would not receive the benefit of AV growth under the proposal.

State Agencies Affected: Department of State Revenue, Indiana Department of Commerce, Enterprise Zone Board.

Local Agencies Affected: Counties imposing local option income taxes.

Information Sources: DOR income tax data; Leslie Richardson, Director, Division of Research, Indiana Department of Commerce, (317) 232-8962.